



**LONGWOOD UNIVERSITY  
FOUNDATION, INC. AND AFFILIATES**

**CONSOLIDATED FINANCIAL STATEMENTS**

*As of and for the Years Ended June 30, 2016  
and 2015*

*And Report of Independent Auditor*

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**TABLE OF CONTENTS**

---

**REPORT OF INDEPENDENT AUDITOR.....1-2**

**FINANCIAL STATEMENTS**

Consolidated Statements of Financial Position .....3  
Consolidated Statements of Activities .....4-5  
Consolidated Statements of Cash Flows.....6  
Notes to the Consolidated Financial Statements.....7-23

## Report of Independent Auditor

The Board of Directors  
Longwood University Foundation, Inc. and Affiliates  
Farmville, Virginia

We have audited the accompanying consolidated financial statements of Longwood University Foundation, Inc. and Affiliates (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### **Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Longwood University Foundation, Inc. and Affiliates as of June 30, 2016 and 2015, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As described in Notes 1 and 3, as of June 30, 2016 and 2015, the consolidated financial statements include an investment in a limited partnership for which quoted market prices are not readily available. This investment was valued at \$50,828,231 (73.3% of net assets) and \$53,370,930 (70.7% of net assets) as of June 30, 2016 and 2015, respectively. The value of this investment has been provided by the general partner, who in absence of readily determinable market values, has estimated fair value based on information provided by the fund managers of the underlying investments. Because of the inherent uncertainty of valuation, the estimated value may differ from the value that would have been used had a ready market for this investment existed and the difference could be material. Our opinion is not modified with respect to this matter.

Cheryl Behart LLP

Lynchburg, Virginia  
November 29, 2016

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

*JUNE 30, 2016 AND 2015*

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,175,315	\$ 6,279,009
Prepaid expenses	14,714	8,993
Contributions receivable, net	2,900,361	3,473,519
Investments	53,191,146	57,622,728
Cash value of life insurance policies	110,532	108,011
Longwood Center for the Visual Arts art collection	4,576,339	4,472,146
Depreciable property and equipment, net of accumulated depreciation	1,094,412	1,127,992
Land	1,286,854	1,286,854
Other asset	235,490	235,490
Beneficial interest in perpetual trust	<u>2,137,399</u>	<u>2,289,569</u>
<b>Total Assets</b>	<u><u>\$ 70,722,562</u></u>	<u><u>\$ 76,904,311</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities:		
Accounts payable	\$ 72,543	\$ 204,092
Amounts payable to third-party beneficiaries	766,306	717,003
Annuities payable	<u>521,378</u>	<u>538,967</u>
<b>Total Liabilities</b>	<u>1,360,227</u>	<u>1,460,062</u>
Net Assets:		
Unrestricted Net Assets:		
Current operations	2,684,804	3,102,166
Funds functioning as endowment	4,772,874	5,362,969
Designated for specific purposes	<u>438,635</u>	<u>543,197</u>
<b>Total Unrestricted Net Assets</b>	7,896,313	9,008,332
Temporarily restricted net assets	23,010,817	29,056,116
Permanently restricted net assets	<u>38,455,205</u>	<u>37,379,801</u>
<b>Total Net Assets</b>	<u>69,362,335</u>	<u>75,444,249</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 70,722,562</u></u>	<u><u>\$ 76,904,311</u></u>

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**

YEARS ENDED JUNE 30, 2016 AND 2015

	2016			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains (Losses), and Other Support:				
Contributions	\$ 434,959	\$ 776,989	\$ 1,283,996	\$ 2,495,944
Income from perpetual trust	-	128,270	-	128,270
Investment income	87,808	403,508	3,818	495,134
Net realized and unrealized loss on investments	(544,258)	(2,324,304)	(16,591)	(2,885,153)
Net unrealized loss on perpetual trust	-	-	(152,170)	(152,170)
Other revenue	137,305	274,470	3,867	415,642
Annuity and unitrust adjustments	-	(38,421)	-	(38,421)
In-kind contribution-affiliated	623,263	-	-	623,263
Net assets released from restrictions	5,313,327	(5,215,618)	(97,709)	-
<b>Total Revenues, Gains (Losses), and Other Support</b>	<b>6,052,404</b>	<b>(5,995,106)</b>	<b>1,025,211</b>	<b>1,082,509</b>
Expenses:				
Program Expenses:				
Institutional support	3,941,751	-	-	3,941,751
Scholarships and grants	1,801,015	-	-	1,801,015
Alumni association	163,335	-	-	163,335
Other	23,061	-	-	23,061
Supporting Expenses:				
Administrative and general	419,841	-	-	419,841
Fundraising	815,420	-	-	815,420
<b>Total Expenses</b>	<b>7,164,423</b>	<b>-</b>	<b>-</b>	<b>7,164,423</b>
Change in net assets before reclassifications	(1,112,019)	(5,995,106)	1,025,211	(6,081,914)
Reclassifications	-	(50,193)	50,193	-
Change in net assets	(1,112,019)	(6,045,299)	1,075,404	(6,081,914)
Net assets, beginning of year	9,008,332	29,056,116	37,379,801	75,444,249
<b>Net assets, end of year</b>	<b>\$ 7,896,313</b>	<b>\$ 23,010,817</b>	<b>\$ 38,455,205</b>	<b>\$ 69,362,335</b>

(continued)

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES (CONTINUED)**

YEARS ENDED JUNE 30, 2016 AND 2015

	2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenues, Gains (Losses), and Other Support:				
Contributions	\$ 378,995	\$ 2,322,371	\$ 1,060,482	\$ 3,761,848
Income from perpetual trust	-	110,631	-	110,631
Investment income	101,751	469,085	61,818	632,654
Net realized and unrealized gain (loss) on investments	411,224	1,632,463	(831)	2,042,856
Net unrealized loss on perpetual trust	-	-	(107,536)	(107,536)
Other revenue	115,192	203,294	16,380	334,866
Annuity and unitrust adjustments	-	(91,307)	-	(91,307)
In-kind contribution-affiliated	220,715	-	-	220,715
Net assets released from restrictions	5,518,263	(5,518,263)	-	-
Total Revenues, Gains (Losses), and Other Support	6,746,140	(871,726)	1,030,313	6,904,727
Expenses:				
Program Expenses:				
Institutional support	4,146,219	-	-	4,146,219
Scholarships and grants	1,429,455	-	-	1,429,455
Alumni association	66,332	-	-	66,332
Other	45,276	-	-	45,276
Supporting Expenses:				
Administrative and general	373,565	-	-	373,565
Fundraising	446,834	-	-	446,834
Total Expenses	6,507,681	-	-	6,507,681
Change in net assets before reclassifications	238,459	(871,726)	1,030,313	397,046
Reclassifications	-	(21,587)	21,587	-
Change in net assets	238,459	(893,313)	1,051,900	397,046
Net assets, beginning of year	8,769,873	29,949,429	36,327,901	75,047,203
Net assets, end of year	<u>\$ 9,008,332</u>	<u>\$ 29,056,116</u>	<u>\$ 37,379,801</u>	<u>\$ 75,444,249</u>

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (6,081,914)	\$ 397,046
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	64,861	60,401
Gain on disposition of property and equipment	-	(7,000)
Net realized and unrealized loss (gain) on investments	2,885,153	(2,042,856)
Permanently restricted contributions	(1,283,996)	(1,060,482)
Net unrealized loss on perpetual trust	152,170	107,536
Gifts-in-kind, art collection, net of decrease in art collection contribution receivable of \$133,190 in 2015	(104,193)	(160,290)
Changes in operating assets and liabilities:		
Account receivable, stream credit	-	1,008,268
Prepaid expenses	(5,721)	1,601
Contributions receivable	573,158	(623,336)
Cash value of life insurance policies	(2,521)	173
Accounts payable	(131,549)	(20,131)
Amounts payable to third-party beneficiaries	49,303	39,399
Annuities payable	(17,589)	34,687
Net cash used in operating activities	<u>(3,902,838)</u>	<u>(2,264,984)</u>
<b>Cash flows from investing activities:</b>		
Net sales of investments	1,546,429	652,561
Purchase of property and equipment	(31,281)	(17,026)
Purchase of land	-	(57,669)
Construction of wetland	-	(235,490)
Net cash provided by investing activities	<u>1,515,148</u>	<u>342,376</u>
<b>Cash flows from financing activities:</b>		
Permanently restricted contributions	<u>1,283,996</u>	<u>1,060,482</u>
Net cash provided by financing activities	<u>1,283,996</u>	<u>1,060,482</u>
Net decrease in cash and cash equivalents	(1,103,694)	(862,126)
Cash and cash equivalents, beginning of year	<u>6,279,009</u>	<u>7,141,135</u>
Cash and cash equivalents, end of year	<u>\$ 5,175,315</u>	<u>\$ 6,279,009</u>



# LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

---

### Note 1—Summary of significant accounting policies

*Principals of Consolidation* – The consolidated financial statements include the accounts of the Longwood University Foundation, Inc. and its supporting organization, the Duvahl Ridgeway Hull and Andrew W. Hull Charitable Foundation (the “Hull Foundation”).

The Longwood University Foundation, Inc. and Affiliates (the “Foundation”) receives 85% of the Hull Foundation’s net income. The assets of the Hull Foundation include two charitable remainder trusts and other investments. Fifteen percent of the Hull Foundation net assets are payable to unrelated third parties and have been recorded in the consolidated statements of financial position as amounts payable to third-party beneficiaries.

A former supporting organization, the Hull Springs Farm Foundation, was established in 2008 as a supporting organization to the Foundation and, prior to March 2013, owned and operated the Hull Springs Farm located in Virginia within the Chesapeake Bay watershed, which is used by Longwood University and other universities for educational purposes and research. On March 25, 2013, the Hull Springs Farm Foundation was dissolved and all of its assets were distributed to the Longwood University Foundation, Inc. (See Note 17).

*Nature of Foundation Activities* – The Foundation is a non-profit organization that exists for the sole purpose of accepting gifts and distributing funds to support the activities and operations of Longwood University (the “University”) in Farmville, Virginia.

*Basis of Presentation* – The accompanying consolidated financial statements present information regarding the Foundation’s financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The three classes are differentiated based on the existence or absence of donor-imposed restrictions, as described below:

- *Unrestricted net assets* are free of donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Directors or may otherwise be limited by contractual agreements with outside parties. Expenses, revenues, gains, and losses that are not temporarily or permanently restricted by donors are included in this classification. Any deficiency in the fair value of assets associated with individual donor-restricted endowment funds that fall below the level of the contribution is included in unrestricted net assets.
- *Temporarily restricted net assets* are limited in use by donor-imposed stipulations that expire by the passage of time or that can be fulfilled by action of the Foundation pursuant to those stipulations.
- *Permanently restricted net assets* are amounts required by donors to be held in perpetuity; however, the income on these assets is available to meet various restricted and other operating needs. These net assets primarily include permanent endowment funds and funds held in trust by others.

*Cash and Cash Equivalents* – Cash and cash equivalents consist of demand deposits and all highly liquid investments with original maturities of three months or less when purchased, except those amounts held by the Foundation’s investment manager as a part of a long-term strategy.

*Investments* – Investments with readily determinable fair values are reported at market value based upon quoted market prices. Donated investments are recorded at fair value as of the date received. Certain investments in limited partnership interests are reported at estimated fair value and valued using the net asset value for the units obtained by the investment administrator. Investment income and realized and unrealized gains (losses) are included in the consolidated statements of activities in the appropriate net asset class.

# LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

---

### Note 1—Summary of significant accounting policies (continued)

*Longwood Center for the Visual Arts Art Collection* – The Longwood Center for the Visual Arts art collection is stated at cost, except those items received as a gift which are stated at appraised value on the date of the gift and are not depreciated.

*Property and Equipment* – Property and equipment are stated at cost at the date of acquisition or at fair value at the date of gift, less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of 40 years for buildings and 5 years for vehicles and property and equipment. Betterments and major renewals which appreciably extend the useful lives of the properties are capitalized, while repairs and maintenance are charged to expense in the year incurred. When assets are retired or otherwise disposed of, the cost and accumulated depreciation are eliminated from the accounts, and any gain or loss is reflected in net income. Generally, it is the Foundation's policy to capitalize property and equipment that have an acquisition cost of greater than \$5,000.

*Land* – Land is stated at cost at the date of acquisition or at fair value at the date of gift. Depreciation is not recognized on land.

*Irrevocable Split-Interest Agreements* – The Foundation is a participant in various split-interest agreements, for which it serves as trustee. (A split-interest agreement is created when a donor contributes assets to the Foundation or places them in a trust for the benefit of the Foundation, but the Foundation is not the sole beneficiary of the assets' economic value.) Generally, assets held under these agreements are recorded at fair value and are included in investments. Liabilities are recorded for any portion of the assets held for donors or other beneficiaries equal to the present value of the expected future payments to be made and are included in liabilities amounts payable to third-party beneficiaries. The liabilities are adjusted annually for changes in the value of the assets, accretion of the discount, and other changes in the estimates of future benefits. Contribution revenues are recognized at the dates the agreements are established for the difference between the assets and the liabilities. The discount rate used to determine the present value of the liability is based upon life expectancy tables and approximates the United States Treasury rate. Split-interest agreements where the Foundation is not the trustee are included in either contributions receivable or funds held in perpetual trusts. The decrease in value of assets held under split-interest agreements for the years ended June 30, 2016 and 2015 were \$268,549 and \$1,205, respectively, and are included in net realized and unrealized gain (loss) on investments in the consolidated statements of activities. The split-interest agreement amounts at June 30, 2016 and 2015 were \$650,451 and \$641,665, respectively, and are included as amounts payable to third-party beneficiaries in the consolidated statements of financial position.

*Contributions* – Contributions, including unconditional promises to give, are recognized as unrestricted, temporarily restricted, or permanently restricted revenues, depending on the existence and/or nature of any donor restrictions, in the period received.

Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions received with donor-imposed time or purpose restrictions are classified as revenues in the temporarily restricted net assets class until such time as the restricted purpose or passage of time specified by the donor has been met.

# LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

---

### Note 1—Summary of significant accounting policies (continued)

*Contributed Services of an Affiliate* – As further discussed below and in Note 12, contributed services from personnel of an affiliate are recognized if those services directly benefit the Foundation. The services are measured at the cost recognized by the affiliate for the personnel providing those services.

*Gifts-in-Kind* – Material gifts-in-kind items received by the Foundation are recorded as income along with a corresponding charge to expense or capitalized cost. During the years ended June 30, 2016 and 2015, \$106,143 and \$293,480, respectively, were received as gifts-in-kind.

*Income Taxes* – The Foundation has received a favorable determination letter from the Internal Revenue Service stating that it is exempt under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

Management has evaluated the effect of the guidance provided in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) on Accounting for Uncertainty in Income Taxes. Management believes that the Foundation continues to satisfy the requirements of a tax-exempt organization at June 30, 2016 and 2015. Management has evaluated all tax positions that could have a significant effect on the consolidated financial statements and determined that the Foundation had no uncertain income tax positions at June 30, 2016 and 2015.

*Estimates* – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*Fair Value* – The Foundation follows the Fair Value Measurements topic of the FASB ASC, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy which requires an entity to maximize the use of observable inputs when measuring fair value.

The standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date;

Level 2 – Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value can be determined through the use of models or other valuation methodologies; and

Level 3 – Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

# LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

---

### **Note 1—Summary of significant accounting policies (continued)**

The carrying amounts reflected in the consolidated statements of financial position for cash and cash equivalents approximate the respective fair values due to the short maturities of those instruments and any differences being immaterial.

The carrying value of investments, other than the limited partnership interest described below, approximate fair value as amounts were derived from quoted prices in active markets, net asset value of investments held, a mid-market quotation from a broker, or a bid quotation, and are considered Level 1 within the valuation hierarchy.

The carrying value of the beneficial interest in perpetual trust is measured using the fair value of the trust assets. For fair value measurement, the Foundation considers its interest in the trust as a single asset class. Since the Foundation will never receive the underlying trust assets, and since there is no active market for the trust, the beneficial interest in perpetual trust is considered Level 3 within the valuation hierarchy.

The Foundation is a limited partner in The Richmond Fund, LP (the "Fund"), an investment limited partnership. The Fund's investment portfolio includes domestic equity, international equity, private equity, credit, real estate, and real assets, as well as other asset classes. The Fund's investments in these asset classes are made primarily through participation in other investment funds. Based on the terms of the partnership agreement, for fair value measurement the Foundation views its investment in the Fund as a single asset class. The Foundation has estimated the fair value of the investment in the Fund on the basis of the net asset value ("NAV") per share of the Fund (or its equivalent), as a practical expedient, because a) the underlying investment manager's calculation of the NAV is fair value based, and b) the NAV has been calculated as of the Foundation's fiscal year end date. The Foundation believes that the stated value of the investment in the Fund is a reasonable estimate of fair value as of June 30, 2016 and 2015. As further discussed in Note 4, the Foundation's investment in the Fund is not included in the fair value hierarchy.

The Foundation's planned giving liabilities, which include gift annuities and irrevocable trust liabilities, are computed and measured at fair value based on discounted future cash flows. Inputs used in computing the liability include a discount rate equal to the current risk-free rate, the estimated return on the invested assets, the duration of the agreement, the life expectancy of the donors and their beneficiaries, and the contractual payment obligation under the agreement. Planned giving liabilities are considered Level 3 within the valuation hierarchy because some of the factors used in valuation include factors not easily observable in similar instruments in an active market.

*Subsequent Events* – Management of the Foundation has evaluated subsequent events through November 29, 2016, which is the date the consolidated financial statements were available to be issued. No events requiring disclosure have occurred through this date.

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*JUNE 30, 2016 AND 2015*

**Note 2—Contributions receivable**

Contributions receivable consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
Cash pledges expected to be collected in:		
Less than one year	\$ 580,634	\$ 849,133
One to five years	147,983	370,178
Thereafter	<u>5,072,742</u>	<u>5,232,563</u>
Total	5,801,359	6,451,874
Less discount to present value at 5% for 2016 and 2015	<u>2,900,998</u>	<u>2,978,355</u>
 Total	 <u><u>\$ 2,900,361</u></u>	 <u><u>\$ 3,473,519</u></u>

The use of funds from contributions receivable have been restricted by donors for future use as follows:

	<u>2016</u>	<u>2015</u>
Temporarily restricted	\$ 1,855,073	\$ 2,060,548
Permanently restricted	<u>1,045,288</u>	<u>1,412,971</u>
	<u><u>\$ 2,900,361</u></u>	<u><u>\$ 3,473,519</u></u>

At June 30, 2016 and 2015, the Foundation had received bequests and other intentions to give of approximately \$7,987,337 and \$7,160,291, respectively. These intentions to give are conditional and, therefore, are not recognized as assets. If they are received, they will generally be restricted for specific purposes as stipulated by the donors.

The Foundation considers contributions receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2016 AND 2015

**Note 3—Investments**

Investments and the beneficial interest in perpetual trust portfolio are comprised of the following at June 30:

	2016		2015	
	Cost	Fair Market Value	Cost	Fair Market Value
Cash and cash equivalents	\$ 5,175,315	\$ 5,175,315	\$ 6,279,009	\$ 6,279,009
Investments:				
Government bonds, corporate obligations, and fixed income securities	1,359,232	1,336,195	3,312,151	3,312,340
Corporate stocks and mutual funds	607,610	1,026,720	692,073	939,458
Limited partnership	43,519,231	50,828,231	42,429,432	53,370,930
Total Investments	45,486,073	53,191,146	46,433,656	57,622,728
Beneficial interest in perpetual trust	1,994,836	2,137,399	2,074,741	2,289,569
Total	\$ 52,656,224	\$ 60,503,860	\$ 54,787,406	\$ 66,191,306

Cash and cash equivalents includes operating cash of \$3,437,865 and \$4,913,485 as of June 30, 2016 and 2015, respectively.

Investment fees netted against the related investment income or net realized and unrealized gain (loss) on investments for the years ended June 30, 2016 and 2015 were \$551,205 and \$566,787, respectively.

In April 2010, the Foundation became a partner in the Fund managed by Spider Management Company, LLC, a Virginia limited liability company and wholly-owned subsidiary of the University of Richmond. The Fund is only available to tax-exempt organizations described in section 501(c) of the Internal Revenue Code to which contributions may be made that are deductible under Code Section 170 and are "accredited investors" within the meaning set forth in Rule 501(a) of Regulation D under the Securities Act of 1933, as amended.

The Fund's investment objective is to provide steady gains during market upswings through a diverse array of public/private and domestic/international investments, while preserving capital during market downturns. The Fund is invested as if it is part of the endowment of the University of Richmond, and the time weighted returns for the Fund and the University of Richmond are blended on a quarterly basis. The assets of the Fund, when combined with the University of Richmond's endowment assets on a pro forma basis, will be invested in accordance with the University of Richmond's Investment Policy Statement. The Foundation's initial investment in the Fund on July 1, 2010 is subject to an initial five-year lockup period and certain withdrawal restrictions.

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2016 AND 2015

**Note 3—Investments (continued)**

At June 30, 2016, the Fund consisted of 29 partners and the Foundation's interest in the Fund represents 3.2% of the total partnership capital. The Fund is audited on a semi-annual basis on June 30 and December 31.

**Note 4—Fair value measurements of assets and liabilities**

See "Fair Value" in Note 1 above for discussions of the methodologies and assumptions used to determine the fair value of the Foundation's investments.

The following table summarizes the valuation of the Foundation's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2016, based on the level of input utilized to measure fair value:

	<b>As of June 30, 2016</b>			
	<b>Quoted Prices In Active Markets for Identical Assets (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Fair Value</b>
Cash and cash equivalents	\$ 5,175,315	\$ -	\$ -	\$ 5,175,315
Investments:				
Domestic equity funds	410,474	-	-	410,474
International equity funds	57,517	-	-	57,517
Fixed income funds	1,009,506	-	-	1,009,506
Domestic stocks	549,686	-	-	549,686
International stocks	9,043	-	-	9,043
Corporate obligations	326,689	-	-	326,689
Limited partnership measured at net asset value <sup>(1)</sup>	-	-	-	50,828,231
Total investments	<u>2,362,915</u>	<u>-</u>	<u>-</u>	<u>53,191,146</u>
Beneficial interest in perpetual trust	<u>-</u>	<u>-</u>	<u>2,137,399</u>	<u>2,137,399</u>
Total	<u>\$ 7,538,230</u>	<u>\$ -</u>	<u>\$ 2,137,399</u>	<u>\$ 60,503,860</u>
Planned giving liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 521,378</u>	<u>\$ 521,378</u>

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2016 AND 2015

**Note 4—Fair value measurements of assets and liabilities (continued)**

The following table summarizes the valuation of the Foundation's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2015, based on the level of input utilized to measure fair value:

	As of June 30, 2015			Fair Value
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Cash and cash equivalents	\$ 6,279,009	\$ -	\$ -	\$ 6,279,009
Investments:				
Domestic equity funds	309,827	-	-	309,827
International equity funds	100,398	-	-	100,398
Fixed income funds	118,500	-	-	118,500
Domestic stocks	523,118	-	-	523,118
International stocks	6,115	-	-	6,115
Corporate obligations	3,193,840	-	-	3,193,840
Limited partnership measured at net asset value <sup>(1)</sup>	-	-	-	53,370,930
Total investments	4,251,798	-	-	57,622,728
Beneficial interest in perpetual trust	-	-	2,289,569	2,289,569
Total	\$ 10,530,807	\$ -	\$ 2,289,569	\$ 66,191,306
Planned giving liabilities	\$ -	\$ -	\$ 538,967	\$ 538,967

(1) In accordance with FASB ASC 820-10, certain investments that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts of these investments presented in these tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.



**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2016 AND 2015

**Note 4—Fair value measurements of assets and liabilities (continued)**

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 assets for the years ended June 30, 2016 and 2015:

	<b>Beneficial Interest in Perpetual Trust</b>	
	<b>2016</b>	<b>2015</b>
Beginning fair value	\$ 2,289,569	\$ 2,397,105
Investment income	128,270	110,631
Net realized and unrealized loss on investments	(152,170)	(107,536)
Withdrawals	(128,270)	(110,631)
Ending fair value	<u>\$ 2,137,399</u>	<u>\$ 2,289,569</u>
The amount of total losses for the period included in changes in net assets attributable to the changes in unrealized gains (losses) relating to assets held at the end of the reporting period.	<u>\$ (152,170)</u>	<u>\$ (107,536)</u>

The table below sets forth a summary of changes in the fair value of the Foundation's Level 3 liabilities for the years ended June 30, 2016 and 2015:

	<b>Planned Giving Liabilities</b>	
	<b>2016</b>	<b>2015</b>
Beginning fair value	\$ 538,967	\$ 504,280
Payments to beneficiaries	(56,010)	(56,620)
Actuarial adjustments	38,421	91,307
Ending fair value	<u>\$ 521,378</u>	<u>\$ 538,967</u>

For investments in entities that calculate NAV, or its equivalent, whose fair value is not readily determinable, the following table provides information about the relative liquidity of these investments. The fair values of these investments have been estimated using NAV per share of the investments, unless noted. Management is not aware of any factors that would impact NAV as of June 30, 2016 and 2015.

The following table sets forth a summary of the Foundation's assets valued at NAV per share, or its equivalent, as of June 30, 2016:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Applicable)</u>	<u>Redemption Notice Period</u>
Limited partnership <sup>(a)</sup>	\$ 50,828,231	\$ -	Quarterly	60 days

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2016 AND 2015

**Note 4—Fair value measurements of assets and liabilities (continued)**

The following table sets forth a summary of the Foundation's assets valued at NAV per share, or its equivalent, as of June 30, 2015:

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Applicable)</u>	<u>Redemption Notice Period</u>
Limited partnership <sup>(a)</sup>	\$ 53,370,930	\$ -	Quarterly	60 days

(a) The limited partnership's investment portfolio includes domestic equity, international equity, private equity, credit, real estate, and real assets, as well as other asset classes. The Foundation does not have the ability to withdraw or redeem more than 10% of its interest in the partnership for a period of five years from initial subscription period ending July 1, 2015.

**Note 5—Property and equipment**

The following is a summary of depreciable property and equipment at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Buildings	\$ 1,441,071	\$ 1,441,071
Property and equipment	34,763	34,762
Vehicles	176,802	145,520
	<u>1,652,636</u>	<u>1,621,353</u>
Less accumulated depreciation	558,224	493,361
Depreciable property and equipment, net	<u>\$ 1,094,412</u>	<u>\$ 1,127,992</u>

Depreciation expense was \$64,861 and \$60,401 for the years ended June 30, 2016 and 2015, respectively.

**Note 6—Beneficial interest in perpetual trust**

The Foundation is the beneficiary of the annual income earned from the Nelly Ward Nance Trust (the "Nance Trust") held by Wells Fargo Bank, N.A. The assets of the Nance Trust are neither in the possession nor under the control of the Foundation.

At June 30, 2016 and 2015, the fair market value of the Nance Trust was \$2,137,399 and \$2,289,569, respectively, which is recorded in the consolidated statements of financial position. Income and unrealized losses on the Nance Trust for the year ended June 30, 2016 were \$128,270 and \$152,170, respectively; and \$110,631 and \$107,536, respectively, for the year ended June 30, 2015.

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*JUNE 30, 2016 AND 2015*

**Note 7—Temporarily restricted net assets**

The amounts included as temporarily restricted net assets as of June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Longwood Center for the Visual Arts	\$ 6,546,757	\$ 6,655,327
Scholarships and awards	5,300,770	8,156,156
Academic support	3,989,591	4,214,274
Class gift projects	570,392	794,616
Athletics	316,684	250,854
Hardy House	138,031	146,868
Other capital projects	5,494,623	8,012,591
Other purpose restrictions	307,510	500,491
Time restrictions	346,459	324,939
	<u>\$ 23,010,817</u>	<u>\$ 29,056,116</u>

**Note 8—Permanently restricted net assets**

The following original endowment gifts are classified as permanently restricted net assets at June 30, 2016 and 2015, and relate to the following purposes:

	<u>2016</u>	<u>2015</u>
Scholarships and awards	\$ 28,866,024	\$ 27,752,090
Professorships	1,100,772	1,100,772
Longwood Center for the Visual Arts	1,193,459	1,271,918
Ames Hull Springs Farm	2,468,164	2,468,164
Library	57,333	57,333
Other endowment gifts	4,769,453	4,729,524
	<u>\$ 38,455,205</u>	<u>\$ 37,379,801</u>

**Note 9—Net assets released from restrictions**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose or by the occurrence of other events specified by donors. Net assets released for expenditure during the years ended June 30, 2016 and 2015 totaled \$5,313,327 and \$5,518,263, respectively.

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2016 AND 2015

**Note 10—Endowment**

The Foundation has adopted the provisions of the Presentation of Financial Statements for Not-for-Profit Entities Topic of the FASB ASC, which provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) and also requires disclosures about endowment funds, both donor-restricted endowment funds and board-designated endowment funds.

The Foundation’s endowment consists of approximately 350 individual funds established for a variety of purposes including both donor-restricted endowment funds and funds designated by the Foundation’s Board of Directors (the “Board”) to function as endowments. Net assets associated with endowment funds, including funds designated by the Board as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

*Interpretation of Relevant Law* – The Board of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowments funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Endowment net assets consist of the following at June 30, 2016:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 8,573,752	\$ 38,455,205	\$ 47,028,957
Board-designated endowment funds	4,772,874	-	-	4,772,874
Total endowed net assets	<u>\$ 4,772,874</u>	<u>\$ 8,573,752</u>	<u>\$ 38,455,205</u>	<u>\$ 51,801,831</u>

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2016 AND 2015

**Note 10—Endowment (continued)**

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2015	\$ 5,362,969	\$ 13,075,939	\$ 37,379,801	\$ 55,818,709
Investment return:				
Investment income	59,103	331,014	3,818	393,935
Net realized and unrealized loss	<u>(391,998)</u>	<u>(2,281,999)</u>	<u>(16,591)</u>	<u>(2,690,588)</u>
Total Investment Return	(332,895)	(1,950,985)	(12,773)	(2,296,653)
Contributions	22,707	27,656	1,283,996	1,334,359
Appropriation of endowment assets for expenditure	(275,335)	(1,603,153)	(97,709)	(1,976,197)
Net unrealized loss on perpetual trust	-	-	(152,170)	(152,170)
Other revenue	24,716	109,478	3,867	138,061
Annuity and unitrust adjustments	-	(22,665)	-	(22,665)
Administrative fees	(70,338)	(562,749)	-	(633,087)
Reclassifications	<u>41,050</u>	<u>(499,769)</u>	<u>50,193</u>	<u>(408,526)</u>
Endowment net assets, June 30, 2016	<u>\$ 4,772,874</u>	<u>\$ 8,573,752</u>	<u>\$ 38,455,205</u>	<u>\$ 51,801,831</u>

Endowment net assets consist of the following at June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 13,075,939	\$ 37,379,801	\$ 50,455,740
Board-designated endowment funds	<u>5,362,969</u>	<u>-</u>	<u>-</u>	<u>5,362,969</u>
Total endowed net assets	<u>\$ 5,362,969</u>	<u>\$ 13,075,939</u>	<u>\$ 37,379,801</u>	<u>\$ 55,818,709</u>

**LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

JUNE 30, 2016 AND 2015

**Note 10—Endowment (continued)**

Changes in endowment net assets for the year ended June 30, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2014	\$ 5,224,242	\$ 12,505,636	\$ 36,327,901	\$ 54,057,779
Investment return:				
Investment income	73,947	388,506	61,818	524,271
Net realized and unrealized gain (loss)	<u>299,116</u>	<u>1,665,399</u>	<u>(831)</u>	<u>1,963,684</u>
Total Investment Return	373,063	2,053,905	60,987	2,487,955
Contributions	12,403	225,999	1,060,482	1,298,884
Appropriation of endowment assets for expenditure	(167,608)	(1,131,144)	-	(1,298,752)
Net unrealized loss on perpetual trust	-	-	(107,536)	(107,536)
Other revenue	-	100,000	16,380	116,380
Annuity and unitrust adjustments	-	(22,679)	-	(22,679)
Administrative fees	(78,162)	(639,462)	-	(717,624)
Reclassifications	<u>(969)</u>	<u>(16,316)</u>	<u>21,587</u>	<u>4,302</u>
Endowment net assets, June 30, 2015	<u>\$ 5,362,969</u>	<u>\$ 13,075,939</u>	<u>\$ 37,379,801</u>	<u>\$ 55,818,709</u>

*Funds With Deficiencies* – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies as of June 30, 2016 and 2015.

*Return Objectives and Risk Parameters* – The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period, as well as Board-designated funds. Funds classified as growing toward endowment include in their pledge agreement that if the pledge is not paid within five years, the Foundation, at its discretion, could convert the fund to an operating fund. As of June 30, 2016, no funds have ever been converted to an operating fund. In all respects, these funds are treated as endowment funds, including charging an administrative fee and allocating monthly earnings. The only difference is that these funds growing toward endowment have no annual appropriation. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of a benchmark composed of 25% Russell 3000, 15% T-Bills X 2, 15% Cambridge Associates (60% Buyout & 40% Venture), 20% MSCI-World Ex-US Index, 5% Cash (3 Mo. T-Bill), 5% Merrill Lynch HY Master II, 5% Russell NCREIF Real Estate Index, and 10% CPI + 6%. The Foundation expects its endowment funds, over the long term, to provide an average annual real total return sufficient to cover annual expenses and distributions of the Foundation. Actual returns in any given year may vary from this amount.

# LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

---

### **Note 10—Endowment (continued)**

*Strategies Employed for Achieving Objectives* – To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The primary objective is to provide a strategic mix of asset classes which produces the highest expected investment return within a prudent risk framework.

*Spending Policy and How the Investment Objectives Relate to Spending Policy* – The Foundation has a policy of appropriating for distribution each year 4.00% of its endowment funds' average fair value using the prior 12 quarters, commencing with the first quarter of the preceding fiscal year in which the distribution is planned. The Foundation has a policy of appropriating approximately 1.44% of the endowment funds based on the fair value of the funds on March 31 of the fiscal year to cover administrative costs of the Foundation and President's Office. For the years ended June 30, 2016 and 2015, only 1.22% and 1.30% of the endowment funds, respectively, were appropriated as the annual fee. In establishing these policies, the Foundation considered the expected return on its endowment. Accordingly, the Foundation expects the current spending policy to allow its endowment to maintain its purchasing power by growing at a rate equal to planned payouts. Additional real growth will be provided through new gifts and any excess investment return.

### **Note 11—Operating leases**

In November 1998, the Foundation entered into an operating lease agreement for certain real estate for a term of six years. The Foundation leased the real estate to Longwood University for the same lease term. At June 30, 2004, an option to purchase the property for \$555,000 was exercised by the Foundation. The Foundation continues to lease the property to Longwood University on a month-to-month basis, with \$20,000 of rental income recognized in each of the years ended June 30, 2016 and 2015.

### **Note 12—Related parties**

The Foundation received contribution revenue from Board members in the amount of \$148,453 and \$136,297 for the years ended June 30, 2016 and 2015, respectively. The amount of contributions receivable due from the Board members totaled \$86,989 and \$126,695 at June 30, 2016 and 2015, respectively.

In conjunction with its mission to support the activities and operations of Longwood University, the Foundation has entered into various lease arrangements for nominal amounts with the University. Total net book value of assets leased (including the property disclosed in Note 11) to the University was \$2,306,226 and \$2,342,253 at June 30, 2016 and 2015, respectively, including land in the consolidated statements of financial position.

For the years ended June 30, 2016 and 2015, the Foundation recognized \$623,263 and \$220,715, respectively, of in-kind contributions and fundraising expense for services provided from University personnel that directly benefited the Foundation.

### **Note 13—Concentrations of credit risk**

The Foundation maintains its cash, cash equivalents, and investment balances in multiple financial institutions. The Federal Deposit Insurance Corporation covers \$250,000 for substantially all depository accounts. The Foundation from time to time may have amounts on deposit in excess of the insured limits. The Foundation has not experienced significant losses in such accounts and does not believe it is exposed to any significant risk.

# LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

---

### **Note 13—Concentrations of credit risk (continued)**

Related credit risk is mitigated by the high credit quality of this financial institution. The carrying amounts of cash, cash equivalents, and investments approximate fair value. As of June 30, 2016 and 2015, the Foundation maintained 89% and 86%, respectively, of its investment portfolio with one financial institution.

During the year ended June 30, 2016, contributions from five donors represented approximately 39% of the Foundation's total contributions and five donors represented approximately 87% of contributions receivable. During the year ended June 30, 2015, contributions from five donors represented approximately 21% of the Foundation's total contributions and five donors represented approximately 85% of contributions receivable.

### **Note 14—Retirement plan**

The Foundation has a Section 403(b) retirement plan which covers substantially all full-time employees. The Foundation contributed 10.40% of the employees' salary totaling \$21,103 and \$20,859 in the years ended June 30, 2016 and 2015, respectively.

### **Note 15—Risk management**

The Foundation is exposed to various risks of loss related to torts, theft of assets, and errors and omissions. Additionally, the Foundation's affairs are conducted in part by the employees of Longwood University and exposure to loss resulting from this arrangement are managed by the University through a combination of methods, including participation in various risk pools administered by the Commonwealth of Virginia, purchase of commercial insurance and self-retention of certain risks which are included in the operations of the University and not associated with the Foundation. Further details on the University's risk management program are disclosed in the financial report of the University.

### **Note 16—Reclassifications**

Several gift agreements contain a clause which allows the Foundation to use accumulated funds for other than their restricted purpose if the funds do not accumulate to a certain level by a certain date. The funds are classified as temporarily restricted until the endowment terms are met. Net assets of \$50,193 and \$21,587 were reclassified to permanently restricted net assets under these agreements during the years ended June 30, 2016 and 2015, respectively.

### **Note 17—Hull Springs Farm**

The Foundation owns the Hull Springs Farm (the "Farm") located in Virginia within the Chesapeake Bay watershed and is used by the University and other universities for educational purposes and research. Since 2011, the Foundation has been working towards restoration, protecting, and preserving the Farm's wetlands through a wetland mitigation bank program administered by the Virginia Department of Environmental Quality. As a result of the establishment of the Farm's wetland mitigation bank, the bank has created economic "credits" which are based on the ecological value associated with the wetlands. These credits can be sold to developers or other third parties whose projects may impact various ecosystems.

In September 2012, the Virginia Department of Environmental Quality released a total of approximately 2,276 stream credits and 7 wetland credits to the Farm's wetland mitigation bank. During the year ended June 30, 2014, the Foundation entered into a contract to sell 2,276 stream credits for \$1,008,268 to the Virginia Department of Transportation. The amount was collected in full during the year ended June 30, 2015.



# LONGWOOD UNIVERSITY FOUNDATION, INC. AND AFFILIATES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*JUNE 30, 2016 AND 2015*

---

### **Note 17—Hull Springs Farm (continued)**

During the year ended June 30, 2015, the Foundation expended \$235,490 towards the construction of new wetlands at the Farm in anticipation of generating future wetland credits. The Foundation has capitalized these expenditures and recorded the amount as an other asset within the consolidated statement of financial position as of June 30, 2015. During the year ended June 30, 2016, there were no expenditures towards the construction of new wetlands.

### **Note 18—Commitments**

As of June 30, 2016 and 2015, the Foundation has a standby letter of credit agreement with a local bank in the amount of \$700,000. This letter of credit, which is set to expire on August 24, 2017, was issued in favor of the Virginia Department of Environmental Quality as required in connection with the Farm wetland mitigation bank program (See Note 17).

### **Note 19—Deferred compensation plan**

Effective December 12, 2013, the Foundation entered into a deferred compensation agreement with the President of Longwood University, which provides \$10,000 deferred compensation, \$25,000 retention bonus, and related investment earnings equal to 5% of the year end account balance to be credited to a deferred compensation account. The retention bonus will be paid annually during the President's continued employment through May 31, 2018, upon which the full bonus will vest. The total amount credited to the deferred compensation account, including earnings, for the years ended June 30, 2016 and 2015 was \$40,517 and \$38,588, respectively. The total amount payable under the deferred compensation agreement as of June 30, 2016 and 2015 was \$115,855 and \$75,338, respectively, and is included in amounts payable to third-party beneficiaries in the consolidated statements of financial position.